

**Santa Fe Energy Resources, Inc.**

July 23, 1998



Minerals Management Service  
Royalty Management Program  
Rules and Publications Staff  
P. O. Box 25165, MS 3021  
Denver, CO 80225-0165

**RE: Supplementary Proposed Rule on Crude Oil Valuation (July 16, 1998)**

In the latest revised rule, a change in Section 206.102 eliminates a lessee using its final sale at arm's length as value if they have entered into more than one exchange prior to final disposition. The lessee, consequently, is required to use an index-based valuation (Section 206.103) regardless of value received by lessee from its free market transactions.

As stated in the MMS workshops, multiple exchanges are often necessary to move barrels from offshore leases to the onshore markets. In addition to being a necessity to move barrels, it is often the most cost effective way to transport or reposition lease barrels in all regions and thus allow the lessee to decide where maximum value for the barrels can be achieved.

The limitation to one exchange would require a sale of the lessee's barrels at locations that typically have fewer buyers, i.e., Midland, than would be available further downstream, i.e., Cushing, or risk the utilization of an index price which may not be indicative of the actual price received. This change would force the marketing of 100% of the barrels on a lease based on the MMS's one exchange rule. The overriding reason lessees enter into any exchange or exchanges is to maximize value in the judgement of the lessee.

The MMS's stated reason for this change is the difficulty in auditing multiple exchanges. It is the lessee that will be responsible for documenting these exchanges and providing such data to auditors. If the lessee wants to use multiple exchanges, he accepts that administrative burden.

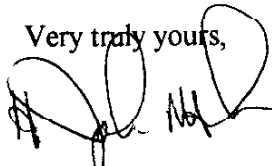
Further changes to Section 206.102 state that the lessee may be forced into an index-based valuation if in the judgement of the MMS that lessee or its affiliate:

- sold the oil "at a price substantially below market price"
- the exchange agreement "does not reflect responsible location or quality differential"

These subjective type qualifiers do not provide the certainty for the lessee that is necessary to conduct its business without MMS second guessing the lessee's decisions.

In the MMS's preamble it states, "Lessees generally may structure their business arrangements however they wish, and absent misconduct, MMS will look to the ultimate arm's-length disposition in the open market as the best measure of value." However, these three qualifiers do not allow the lessee to find the maximum value in the "open market" for the benefit of both the lessee and MMS.

Very truly yours,

A handwritten signature in black ink, appearing to read 'H. John Munsch', written over a horizontal line.

H. John Munsch  
Manager, Raw Material Supply